

FACILITATING THE DEVELOPMENT OF SMALL RECLAMATION PROJECTS

JUNE 27, 1952.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mrs. BOSONE, from the Committee on Interior and Insular Affairs, submitted the following

REPORT

[To accompany H. R. 7084]

The Committee on Interior and Insular Affairs, to whom was referred the bill (H. R. 7084) to facilitate the development of small reclamation projects, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments are as follows:

Page 1, lines 5 and 6, strike the words "and the Reconstruction Finance Corporation are" and insert the word "is".

Page 2, strike all of lines 1 and 2.

Page 2, line 3, strike the subsection designation "(c)" and insert "(b)".

Page 2, line 4, following the word "any" insert the words "community type".

Page 2, line 5, following the word "a" insert the word "major". Strike the words "comprising an".

Page 2, lines 6 and 7, strike all of line 6. Strike the words "construction cost of not over \$1,000,000 in which," on line 7 and insert the words "and with respect to which,".

Page 2, line 9, strike the words "However, the" and insert the word "The".

Page 2, line 10, following the word "include" insert:

(1) any project with an estimated construction or rehabilitation cost in excess of \$1,000,000; (2) any project for the irrigation or drainage of an area of reclaimable land in excess of five thousand acres; or (3)

Page 2, line 16, strike the words "in the circumstances" and insert the words "as determined by the responsible State agency and the Secretary,".

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Page 2, line 18, strike the subsection designation "(d)" and insert "(c)".

Page 2, lines 20, 21, 22, and 23, strike the words "in the executive branch of a State government which has capacity and is empowered to enter into contracts with the United States pursuant to the provisions of this Act" and insert:

executing administration of the water resources of the State and designated by the Governor thereof to cooperate with the Secretary in carrying out the provisions of this Act.

Page 2, following line 23, insert the following new subsection:

(d) The term "applicant" shall mean any State, political subdivision thereof, conservancy district, drainage district, irrigation district, water users organization, or any other agency having authority under State law to carry out reclamation by irrigation or drainage and related activities.

Page 2, line 24, insert the subsection designation "(a)" following the numeral "3."

Page 3, lines 1 and 2, strike the word "Corporation" and insert the word "Secretary".

Page 3, line 2, following the word "of" insert the words "section 7 of".

Page 3, following line 4, insert the following new sentence:

All loans to and repayments, including interest, from applicants shall be made from and to this fund and sums in the fund may be expended as if such sums had been specifically appropriated.

Page 3, line 5, Preceding the word "There" insert subsection designation "(b)".

Page 3, line 6, strike the words "and the Corporation".

Page 3, line 7, following the words "out the" insert the word "other".

Page 3, line 19, strike the word "its" and insert "a". Strike the word "on—" and insert:

on the proposed construction together with its certification as to the adequacy and competency of said report and findings. The report shall set forth—

Page 3, line 25, strike the words "its ability" and insert the words "the ability of the applicant".

Page 4, lines 3 and 4, strike the words "provided by the responsible State agency; and" and insert the word "provided."

Page 4, following line 7, insert the following:

(5) such other information on any proposed construction as determined by the Secretary to be desirable or necessary for him to comply with section 6 of this Act.

Page 4, strike all of lines 8 to 11, inclusive.

Page 4, line 14, strike the words "he shall". Strike all language from page 4, line 15, through page 5, line 6, and insert the words "the project shall then be eligible to receive the benefits hereinafter provided."

Page 5, line 7, strike the word "Upon" and insert the word "After".

Page 5, line 8, strike the word "Corporation," and insert the word "Secretary,".

Page 5, line 9, strike the words "responsible State agency," and insert the word "applicant,".

Page 5, line 10, strike the words "without interest".

Page 5, lines 11 and 12, strike the word "Corporation" and insert "Secretary". Strike the word "advance" and insert the word

"furnish". Strike the word "agency" and insert the words "applicant in accordance with the provisions of the contract".

Page 5, line 13, add the following new sentences:

Interest on advances to said agencies shall be payable in the same manner and to the same extent as that on the reimbursable costs of projects constructed under the Reclamation Project Act of 1939. All changes, by amendment or other legislation, in the provisions of that Act relating to the payment of interest shall be applicable to contracts thereafter entered into under the provisions of this Act.

Page 5, line 22, strike the words "responsible State agency" and insert the word "applicant".

Page 6, strike all of subsection (d), lines 16 to 18, inclusive.

Page 6, line 19, strike the words "and the Corporation".

Page 6, line 20, strike the word "either" and insert the word "he".

Page 6, line 22, strike the words "employee, or" and insert the words "employee of".

Page 6, line 23, strike the words "or of the Corporation".

PURPOSE OF THE BILL

The purpose of the bill is to provide funds for the development or rehabilitation of community-type small projects for the reclamation of land by irrigation or drainage under State sponsorship through loans (not grants), made by the Secretary of the Interior. A recent survey indicates that in the West alone there are potentially more than 400 small irrigation projects.

The Department of the Interior, through its Bureau of Reclamation, has had experience in the reclamation of land through both irrigation and drainage having furnished irrigation service to more than 6 million acres of land, drainage service to approximately a million acres.

Under the bill, applicants would request, through such State agencies as the individual States may designate, loans of sums not greater than one-half of the construction cost of a project. The bill is purposely limited to small projects having areas of less than 5,000 acres or a maximum estimated construction cost of \$1 million.

The bill has the advantage of assisting the small projects which have, in general, suffered through lack of ability to secure the type of engineering and financial assistance which is most needed. It places the major responsibility on the State and local organizations. It has the further advantage of maintaining a uniform Federal policy for reclamation service by the Federal Government.

On April 28, 1952, the Secretary of the Interior transmitted his report on the proposed bill recommending its enactment. With his report he forwarded a letter dated April 25, 1952, from the Director of the Bureau of the Budget to him.

The favorable letters from the Secretary of the Interior and the Director of the Bureau of the Budget and the unfavorable report of the Secretary of Agriculture are as follows:

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DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington 25, D. C., April 28, 1952.

Hon. JOHN R. MURDOCK,
*Chairman, Committee on Interior and Insular Affairs,
House of Representatives, Washington, D. C.*

MY DEAR MR. MURDOCK: We are glad to comply with your request for an expression of our views on H. R. 7084, a bill to facilitate the development of small reclamation projects

Enactment of the bill is recommended.

It appears that the purpose of this bill is to encourage the investigation and construction of small reclamation projects by the States. Under it the States would carry a major responsibility for the success of the program. The Federal Government would assist in the investigation, planning, and design of such projects by furnishing existent engineering, economic, and hydrologic information and, when requested, more direct assistance. It would aid also by lending, through the Reconstruction Finance Corporation, a maximum of one-half of the construction cost of the project. In special cases where substantial benefits from the project flow to the public in general, the bill provides that the Committees on Interior and Insular Affairs may authorize the Reconstruction Finance Corporation to make a nonreimbursable grant to the responsible State agency contracting with the United States for repayment of the construction loan. The loan would be repayable in 40 years without interest.

A recent survey by the Bureau of Reclamation indicates that in the West alone there are potentially more than 400 small irrigation projects involving irrigation service to over 1,200,000 acres of land susceptible of development, together with hundreds of small irrigation and drainage projects in the Eastern States. Detailed data are not available on the financial prospects of these projects, but it is clear that their development is of considerable importance to the Nation.

The enactment of H. R. 7084 will, I believe, aid considerably in the development of small irrigation and drainage projects, but it will not by itself afford a solution to all of their problems. It has become increasingly apparent in our experience with such projects that increased and responsible State participation is highly desirable. Enactment of the bill will be conducive to this. Projects undertaken under the bill, however, will not enjoy certain other advantages, such as financial aid from power revenues, which are available for many projects undertaken under the Federal reclamation laws. The success of the program to which enactment of this bill will contribute will depend, therefore, in large measure upon the willingness of the States to make available, or to underwrite, that portion of the cost of such projects which is not covered by Federal loans and grants under H. R. 7084. For this to be done will require, in most instances, additions to or changes in State law.

The general observations stated above are not made in order to discourage enactment of H. R. 7084, a purpose which would be directly contrary to the wishes of this Department, but in order to point out that its enactment will not furnish a panacea for the troubles in which the small project frequently finds itself today. H. R. 7084 is a forward-looking step and its enactment will lead, I believe, to a far-reaching improvement in the plight of these small grass-roots projects.

I am pleased to inform the committee that the Director of the Bureau of the Budget, by letter of April 25, copy attached, has "advised that the general objective of providing Federal assistance on a sound basis for the development of small reclamation projects is in accord with the program of the President." I commend the committee's attention to the six points which are enumerated in that letter.

Sincerely yours,

OSCAR L. CHAPMAN,
Secretary of the Interior.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., April 25, 1952.

The honorable the SECRETARY OF THE INTERIOR:

MY DEAR MR. SECRETARY: This is in reply to your letter of April 23, transmitting copies of a proposed report to the House Committee on Interior and Insular Affairs with respect to H. R. 7084, a bill to facilitate the development of

small reclamation projects. This bill was introduced by Representative Bosone as a substitute for H. R. 2646 on which your Department earlier transmitted a proposed report to this office, and which was discussed extensively by staff of your Department, the Department of Agriculture, the Reconstruction Finance Corporation, and this Bureau. It also has been considered in relation to the report of the President's Water Resources Policy Commission.

Small reclamation projects represent primarily the responsibility of States and private groups, but it is clearly in the national interest to encourage States and private individuals in their efforts to stimulate small project development. Under present authority, the Reconstruction Finance Corporation may make loans to States, municipalities, and other public bodies, or purchase the obligations of States in order to finance small reclamation development. Such loans may be made for periods up to 40 years and bear interest covering the full cost of the loan program. In considering H. R. 7084, the Congress will need to determine whether or not present authority of the Reconstruction Finance Corporation meets the needs for small reclamation project development.

The Congress may also wish to consider the relationship between the proposed new loan program for small reclamation development and existing authority of the Department of Agriculture for water facilities loans in the 17 Western States. Of further importance is the relationship of the proposed small reclamation project program to the existing authority of the Bureau of Reclamation to construct Federal reclamation projects.

As now drafted, H. R. 7084 contains some provisions which would seem to complicate unduly the administration of a small project loan program, and which may be inappropriate in view of the limited degree of Federal responsibility involved in small project development. Some of the questions raised by these provisions are as follows:

1. Section 7 (a) provides for the States to repay the loans without interest. This would represent a major departure from existing practice with respect to Federal loan programs—all of which at present involve interest payments. It is not at all clear what justification there could be for making loans for this purpose without interest, when all other Federal loans bear interest. The Federal investment in projects under the Reclamation laws is repaid without interest—but such projects are not financed through loans but instead are directly constructed by the Federal Government.

2. Sections 5 and 6 contain provisions permitting nonreimbursable contributions by the Federal Government under special circumstances and when approved by the House and Senate Interior and Insular Affairs Committees. It seems very doubtful that small reclamation projects, as a general rule, would include any important public benefits which would justify Federal nonreimbursable contributions; accordingly, such authority should be omitted, at least until more experience in planning and constructing such projects is available.

3. Section 2 (c) defines a small reclamation project as one comprising an area not exceeding 5,000 acres. In view of the lack of adequate data on the size of small projects and in order to avoid overlapping with Federal reclamation projects, it would probably be better to place the limit at 3,000 acres—at least until better information on the need is available as a result of experience.

4. The bill is not entirely clear with respect to rehabilitation of old projects. It would seem desirable to clarify the provisions of the bill to insure that projects to rehabilitate old areas must meet the same standards as projects to open up new areas, and to insure that the rehabilitation provisions of this bill would not apply to parts or units of existing larger reclamation projects.

5. Section 3 establishes a "special" small reclamation projects fund, and section 7 (d) provides that repayments of advances be covered into miscellaneous receipts of the Treasury. The costs of a small project program would be more clearly shown, and the budget presentation of such a program would be more consistent with sound business-type financial statements, if the bill were to provide instead for a revolving fund, to which appropriations would be authorized and collections of principal and interest would be returned, and from which loans, administrative expenses, and interest to the Treasury would be paid.

6. While the bill would have the loans made by the Reconstruction Finance Corporation, on the basis of an earlier suggestion by Bureau of the Budget staff, our further study indicates that present RFC authority is adequate for the type of loans which the RFC wishes to make, and that any new lending program for small reclamation development should be separate from the RFC program.

Subject to your consideration of the above points, there is no objection to the submission of our proposed report. You are advised that the general objective

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of providing Federal assistance on a sound basis for the development of small reclamation projects is in accord with the program of the President.

It will be appreciated if you will send a copy of this letter with your report to the House Committee on Interior and Insular Affairs.

Sincerely yours,

F. J. LAWTON, *Director.*

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, April 29, 1952.

HON. JOHN R. MURDOCK,
*Chairman, Committee on Interior and Insular Affairs,
House of Representatives.*

DEAR MR. MURDOCK: This is in reply to your request of April 15, 1952 for a report on H. R. 7084, a bill to facilitate the development of small reclamation projects.

Enactment of this bill would enable the Federal Government: (1) To make loans to qualified State agencies for the rehabilitation and construction of small irrigation and drainage projects, or of multiple-purpose projects in which irrigation or drainage is a purpose, and; (2) to provide other services in connection with such projects. The Secretary of the Interior would determine whether or not a loan could be made. The Reconstruction Finance Corporation would be responsible for execution of repayment contracts, for advancing the loans and for their collection. Upon the request of State agency, the Secretary of the Interior could provide technical services, and all Federal agencies could make available information. Other important provisions of the bill may be summarized as follows: (a) The loans contemplated by the bill could not exceed one-half the construction cost of the project; (b) these loans would be made to an agency in the executive branch of the State government; (c) all loans would be repaid within 40 years, without interest; (d) the responsible State agencies would submit reports on proposed projects to the Secretary of the Interior as a basis for his determination of whether or not a project constitutes a "reasonable risk"; (e) under certain circumstances set out in the bill the Federal Government could make nonreimbursable contributions toward the project; (f) certain limitations are placed upon farm size; (g) preferences are granted the United States, public bodies and cooperatives in the sale of power; and (h) certain other interests of the United States are protected.

The Department of Agriculture has long urged an adequate Federal program of credit and technical assistance especially designed to meet the needs of existing reclamation enterprises, and to promote the development of worth-while new enterprises. We are, therefore, in full accord with the general objectives of H. R. 7084. Nevertheless we feel that in its present form the bill is not fully responsive to needs as they actually exist. Moreover, it is not entirely in harmony with well established Federal policies nor with accepted principles of good organization and administration. We recommend, therefore, that it be amended to—

(1) Enable loans to be made directly to enterprises as well as to State executive agencies.

(2) Benefit a wider range of enterprises.

(3) Bring it into line with existing agricultural credit policies and programs.

(4) Make the activity contemplated an integral part of the Nation's over-all program of agricultural credit and technical assistance.

We hasten to make it clear, with respect to the first point, that we have no objection to loans being made directly to an agency of the executive branch of a State government. It is good public policy, we believe, to place primary responsibility at the local level in those cases where it can be successfully assumed. Hence, we feel that the States should be encouraged to assume responsibility for many kinds of activities. But other responsibilities may and should be placed in the cities, counties, and other political subdivisions of the State and with local private organizations. Long experience in working with farmers, individually, and in groups, has convinced us that the people who will make their living on reclaimed lands can, in many instances, assume primary responsibility in developing the enterprise. But to successfully discharge this responsibility many of them need access to adequate credit and technical help. That is why we believe H. R. 7084 should be amended to permit loans to irrigation and drainage districts and to other competent organizations. This will not do away with the need for public projects constructed by the Federal or State Government. But it will serve

to keep to a minimum the number of such projects. This result will, of course, be considered highly desirable by those who believe that primary responsibility should be placed in competent local enterprises; and hence that Federal and State Governments should undertake only those projects that cannot be carried out by local enterprises. H. R. 7084 would limit loans to State agencies to one-half of the cost of the needed improvement. Obviously this limitation should not apply to loans made directly to enterprises.

Broadening of the bill in the manner suggested would have other very important advantages. It would enable a program of credit and technical assistance to go forward in States not yet in a position to assume the degree of responsibility contemplated by H. R. 7084. It would also meet needs in States that, for one reason or another, decided against establishment of an agency meeting the requirements of this bill, or that simply preferred to have loans made directly to enterprises. In other words this would introduce a desirable element of flexibility not found in the bill in its present form. Such an amendment would also help bring the bill into accord with well-established Federal credit policies under which loans can be made directly to competent organizations of direct beneficiaries. Of course, in States organized to assume, and in any particular instance desirous of assuming, the primary responsibility, the Federal Government should not hesitate to make the loan directly to the responsible State agency. But we do not believe that the Federal Government should attempt, through enactment of H. R. 7084 in its present form, to force all States to follow a fixed pattern.

Our second point is that the bill should be amended to benefit a much wider range of enterprises. We are convinced that a program of credit and technical assistance is the best way to meet the needs of some enterprises that embrace more than 5,000 acres. As indicated above, we feel that the need for public projects is strictly limited; that neither the Federal Government nor the State governments should undertake the direct construction of projects that can be successfully carried out by organizations of the people on the land. Particularly in the humid parts of the Nation will nonpublic enterprises covering more than 5,000 acres be needed. For these and other reasons we feel that the upper limits of 5,000 acres and \$1,000,000 should be removed.

Our third point is that the bill should be brought into harmony with existing Federal credit policies, particularly with respect to interest. Enactment of H. R. 7084 in its present form would have serious and far-reaching implications for all other credit activities of the government. For if interest free loans are offered in one credit program it would be difficult to justify charging interest on many of the other loans the Government makes for agricultural and other purposes. On this basis alone we would have to object to the interest free provisions of the bill. But over and above this, we feel that when the Federal Government pays a part of the cost of such reclamation enterprises, the amount of its contribution should be based upon an estimate of the benefits to the Nation as a whole. For any particular enterprise this might be more or less than what it would cost the Federal Government to pay the interest on the loan. In this connection, attention is called to the fact that the bill does make provision (in secs. 5, 6, and 7) for nonreimbursable Federal contributions toward the cost of such enterprises. These would be based upon a determination of benefits to the Nation. Of course the items for which such contributions could be made at any particular time would depend upon the policies in effect at that time under "existing law" (sec. 5).

Our final main point is that a program of the kind contemplated by H. R. 7084 should be an integral part of the Nation's over-all program for making available credit and technical services for agricultural purposes. Irrigation and drainage enterprises are undertaken so that farmers can increase the production of needed agricultural commodities. They are, therefore, agricultural undertakings. It follows that the credit activity contemplated by H. R. 7084 would constitute an agricultural credit program. In the past the Congress has, wisely we believe, made an effort to bring together in the Department of Agriculture all agricultural credit programs of the Federal Government.

These agricultural credit programs include, in fact, one under which loans are made to small irrigation enterprises. This program is carried out under the Water Facilities Act of 1937 (50 Stat. 869). This act authorizes the Secretary of Agriculture to make loans and provide other assistance to farmers and groups of farmers, in the arid and semiarid parts of the Nation, for the construction and rehabilitation of water facilities. The usefulness of this act was severely circumscribed by subsequent legislation placing a limitation upon the size of loans that could be made under it. Prior to June 10, 1949, this limit was \$50,000. Since that date it has been \$100,000. If H. R. 7084 were to be enacted in its present

form it would establish a credit program duplicating the water facilities program for loans up to the latter amount. This bill could, of course, be amended to limit its use to undertakings requiring loans greater than \$100,000. But we do not recommend this because it would not eliminate a far more serious duplication; a duplication in the assignment of basic responsibilities, and in the administrative machinery for handling agricultural credit. Clearly it would be far more logical to make the proposed activity a part of the broad program of agricultural credit and assistance already in existence. This could very easily be done by relatively simple amendments to the Water Facilities Act, or by other means. This Department would, of course, be very happy to work with the committee to this end.

Under the Flood Control Acts the Department of Agriculture is recommending to the Congress the construction of numerous small headwater reservoirs and other engineering works. Many opportunities arise for multiple-purpose projects in which irrigation or drainage can be added to the primary flood-control purposes of such works. Very substantial savings to the Government, as well as to those who would pay for the reclamation features of such multiple-purpose undertakings, could be achieved by combining this Department's activities under flood-control legislation with a program of assistance to small reclamation enterprises. This would be another important advantage of making the proposed activity an integral part of the broad program of the Department of Agriculture.

In sharp contrast to the logic, and to the obvious advantages, of the course we are suggesting are certain features of the program proposed in H. R. 7084. One of these, the establishment of a policy of interest-free Federal loans, has already been mentioned. Another is the proposed division of responsibility for Federal loans between the Department of the Interior and the Reconstruction Finance Corporation. Section 5 authorizes the Secretary of the Interior to determine "that the requested project constitutes a reasonable risk." This language seems to make the Secretary of the Interior responsible for the loan, with the Reconstruction Finance Corporation merely providing the machinery for handling details and records. But other parts of the bill seem just as clearly to place upon the Corporation the full responsibility for contract execution and collections. Such an arrangement is in conflict with generally accepted principles of good organization and administrative management. Long experience has convinced us that in dealing with loans, more than in any other Federal activity, there must be definite assignments of responsibilities and clear-cut lines of authority.

A still further important effect of this bill would be to bring the Department of the Interior into the field of drainage. The main Federal activities in aid of drainage have for many years been a responsibility of the Department of Agriculture. Any further Federal assistance to drainage enterprises should, we believe, be assigned to this Department. This is logical because drainage enterprises are agricultural undertakings, and because the need for major engineering work by the Federal Government is limited to that required in increasing the capacity of the larger rivers. This function is already assigned to the Corps of Engineers; an agency with which the Department of Agriculture works very closely in the drainage field.

For somewhat similar reasons we question the need for authorizing the Department of the Interior to enter into the field of irrigation throughout the Nation. We have made some careful studies of the need for Federal assistance in aid of irrigation in the humid portions of the Nation. We are certain that there is no necessity for an approach of the sort developed by the Department of the Interior for use in the arid regions. But there is an urgent need for a program of credit and technical assistance. Such a program, as has already been pointed out, should be carried out by the agency now responsible for agricultural credit and other services.

In view of all the foregoing we recommend against enactment of H. R. 7084 in its present form. We urge the enactment of an amended bill, or the amendment of existing legislation, to establish a broader and more useful program of credit and technical assistance within the Department of Agriculture. We stand ready to assist the committee in the preparation of such legislation in any way it may indicate.

The Bureau of the Budget advises that there is no objection to the submission of this report. Enclosed is a copy of that Bureau's letter of April 28 commenting upon the bill.

Sincerely,

CHARLES F. BRANNAN, *Secretary.*